

COLEMAN REPORT

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Certified Development Company Executive Director Compensation Study

The news that EDF Resource Capital, the CDC seized by SBA in December, Executive Director's compensation exceeded \$1 million is troublesome to the industry. His compensation simply doesn't pass the smell test.

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Summary of Our Findings

Frank Dinsmore's 2011 compensation of \$1,111,748 amounted to 12% of the CDC's \$9 million in revenues. Notably, that year EDF Resource Capital lost \$923,410 and ended the year with a fund balance of \$3.2 million.

SBA's Inspector General has been sniffing around this topic for a while, and in 2010 warned SBA management of the need to impose a "reasonable" standard for CDC executive compensation.

The OIG wrote, "While SBA policies and procedures for the CDC/504 Loan Program require CDCs to have full-time, professional management, including an executive director or equivalent, it does not establish limits on the amount of compensation that can be paid to CDC executives. SBA requires that executive compensation be reasonable and customary to that

paid for contracted management services, but does not define 'reasonable.' According to senior SBA officials, it has not been SBA's policy to dictate how much its lending partners should compensate its executives.

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“However, SBA regulations state that funds generated from CDC/504 loan activity that are remaining after the payment of staff and overhead expenses be retained by the CDC as a reserve for future operations or investment in other local economic development activity in its area of operations. Therefore, to the extent that CDCs are spending significant amounts on executive compensation, fewer funds will be available to reinvest in economic development activity or future lending operations of the CDC.

“If SBA established required reserve levels, there would be greater assurance that CDCs are keeping expenses to a level that would allow the accumulation of reserves for reinvestment or future operations, as intended by the program.”

Last month’s proposed rule change in demanding an autonomous board for CDCs is the beginning of SBA’s response to rein in unseemly salaries.

“SBA proposes to require that the Board be responsible for setting the mission and hiring, firing, supervising and evaluating the CDC manager. To emphasize the fiscal responsibility of the Board as it relates to salaries, subparagraph (d)(3) explicitly outlines the duties of the Board to set salaries for the CDC manager and to review all other salaries to provide greater transparency and accountability. SBA requires that a Report on Compensation be included in the Annual Report.”

The Coleman Report was able to access the 990 tax returns from 132 of the 254 CDCs who approved at least one SBA 504 loan last year.

We extracted CDC revenues, revenues less expenses, total assets, fund balance, and executive compensation.

Determining if the executive director is being fairly compensated for SBA 504 loan volume is

problematic. Many CDCs derive other sources of revenues other than from the SBA 504 loan program.

We’ve settled on three metrics.

Executive Director Compensation as a Percentage of Revenues

Executive director compensation as a percentage of revenues is calculated as the total compensation paid to the executive director, divided by the CDC’s gross revenues. For example, if a CDC’s revenues are \$1 million and the executive director is paid the national average of \$168,000, the ratio is 17%, just slightly higher than a 16% national average ratio.

Executive Director Compensation as a Percentage of Assets

Executive director compensation as a percentage of CDC assets is calculated as the total compensation paid to the executive director, divided by the CDC’s assets. For example, if a CDC’s assets are \$10 million, and the executive director is paid the national average of \$168,000, the ratio is 1.7%, just a shade higher than the national average ratio of 1.5%.

Executive Director Compensation as a Percentage of 504 Loan Volume

Executive director compensation as a percentage of 504 loan volume is calculated as the total compensation paid to the executive director, divided by the CDC’s 504 loan volume. In other words, how many basis points does the executive director make on each SBA 504 loan? For example, if a CDC approved \$25 million of SBA 504 loans and the executive director is paid the national average of \$168,000, the ratio is .067%, a little higher than the national average of 0.44%.

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Understand the limitation of this ratio is if the CDC has non SBA 504 revenue, this ratio will plummet.

For example, one of the industry's \$500,000 plus earners has a compensation to SBA 504 Loan volume ratio of 0.12%, compensation to asset ratio of 1.1%, and compensation to revenue ratio of 3%, all significantly well below national

averages.

The numbers indicate the CDC is involved in much more activity than SBA 504 lending, making the compensation in line with other c-suite bank executives.

Here is a summary of our findings:

Executive Director Compensation as a Percentage of Revenues	Number of Executive Directors
Over 25%	34
15% to 25%	39
10% to 14%	21
Less than 10%	37

The Top Ten Executive Director's Compensation as a Percentage of Revenues

Executive Director Compensation as a Percentage of Revenues	CDC Gross Annual Revenues	Total Executive Director Compensation
122%	\$195,917	\$239,024
75%	\$202,564	\$152,373
61%	\$247,453	\$150,000
51%	\$120,675	\$61,208
49%	\$930,818	\$454,500
45%	\$207,163	\$93,591
40%	\$273,301	\$110,250
39%	\$257,209	\$100,700
38%	\$786,451	\$301,816
38%	\$294,866	\$111,440

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The Top Ten Executive Director Compensation Packages

Total Compensation	% CDC Revenues	% CDC Assets	% CDC 504 Loan Volume
\$1,111,748	12%	6.36%	0.58%
\$1,008,788	33%	17.39%	2.24%
\$720,731	25%	26.61%	1.00%
\$585,141	8%	8.64%	0.23%
\$546,414	14%	51.82%	0.73%
\$536,075	3%	1.13%	0.12%
\$454,500	49%	103.21%	1.72%
\$425,501	8%	3.36%	0.28%
\$400,903	6%	1.39%	3.52%
\$372,931	17%	28.08%	0.50%

Total Executive Director Compensation Buckets	#
Over \$1 million	2
\$500,000 to \$1 million	4
\$300,000 to \$500,000	10
\$200,000 to \$300,000	15
\$168,000 to \$200,000	11
\$150,000 to \$168,000	14
\$125,000 to \$150,000	13
\$100,000 to \$125,000	30
Less than \$100,000	31

Average CDC Executive Director Compensation	\$168,000
Average CDC Executive Director Compensation as a % of Revenues	16%
Average CDC Executive Director Compensation as a % of Assets	1.7%
Average CDC Executive Director Compensation as a % of SBA 504 Loan Volume	0.44%

Bob Coleman